

# MBO is NOT a Dirty Word (nor even a dirty acronym)

## Does MBO stand for a Mighty Big Offer?

No, but it might just bring one. A Management Buy Out (MBO) occurs when existing management buyout the existing shareholder(s). They may buy all or part, they may buy personally or with external help but whatever the specifics the MBO may secure an excellent outcome for the vendors and for themselves.

In a recent transaction, we helped a Sydney based company that had a co-founder and major shareholder looking to exit. We concurrently ran a targeted trade sale and an MBO process. The MBO price matched the external bid for the whole business and won the day. It also gave the vendor a sense of satisfaction through selling to the 'natural' and best owners of the business.

A common fallacy around MBOs is that current management will not pay as much as a 3<sup>rd</sup> party. Our vendor above achieved the best price selling to the management team. The MBO team understood the business, knew opportunities and were best positioned to handle normal business risks. They saw the real value of the business and happily made the purchase.

Other benefits of selling to your management team include avoiding the normal confidentiality risks attendant in a 3<sup>rd</sup> party sale process.

## Some of the key ingredients for a successful MBO are:

- A capable Management Team of at least 2 with entrepreneurial spirit, a credible plan and skillset to grow the business, and a desire for long term wealth creation.
- An owner open to exploring the idea of a sale to key staff
- An owner who would like a quick transaction or one without warranties or deferred consideration or where they are happy to keep a small stake. Providing the process is supported by a capable Lead Advisor an MBO can proceed more quickly than a traditional sale process.

## What are the obstacles to an MBO?

- Agreement on price and how it should be calculated is one problem. As discussed in our blog [insert link] this is always a challenging process so talk this through with your advisers before commencing discussion with any potential purchasers.
- Funding can be a challenge but there are nowadays several specialist financiers who are keen to fund management buyouts.

- Is your business sustainable without you or without a key staff member? Sometimes without the owner or one or two key staff there is no business, as all the goodwill resides with them. If all the goodwill resides in a key staff member, it is difficult to sell for a high price what they could easily replicate if they left.

**Some common mistakes in the MBO process include:**

- Taking your eye off the core business while focusing on the MBO transaction
- Confusion between equity ownership and employment (some think it guarantees their job, it does not).
- Understanding the characteristics, pro's and con's of various funders
- Not paying for specialized tax advice can be an expensive economy
- Learning painful lessons rather than paying for expert advice to guide you through the process (but we would say that, wouldn't we)